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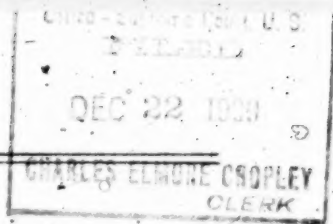
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IN THE
Supreme Court of the United States
October Term—1939.
No. 482.

EDWARD SHELDON and MARGARET AYER BARNES,
Petitioners,
—against—

METRO-GOLDWYN PICTURES CORPORATION, METRO-
GOLDWYN-MAYER DISTRIBUTING CORPORATION,
LOEW'S, INC. and CULVER EXPORT CORPORATION,
Respondents.

ON WRIT OF CERTIORARI TO THE CIRCUIT COURT OF
APPEALS FOR THE SECOND CIRCUIT.

BRIEF FOR PETITIONERS.

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Of Counsel.

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ON WRIT OF CERTIORARI TO THE CIRCUIT COURT OF
APPEALS FOR THE SECOND CIRCUIT.

BRIEF FOR PETITIONERS.

Opinions Below and Jurisdiction.

On the merits of the infringement (not involved here):

The opinion of District Judge Woolsey is reported at 7 Fed. Supp. 837.

The opinion of the Circuit Court of Appeals is reported at 81 Fed. (2d) 49.

On the accounting of profits (on which the present writ was granted):

The opinion of District Judge Leibell is reported at 26 Fed. Supp. 134.

The opinion of the Circuit Court of Appeals is reported at 106 Fed. (2d) 45.

The final judgment of the Circuit Court of Appeals was entered on September 8, 1939 (R. 1287). A petition for certiorari was filed on October 25, 1939 and was granted on December 4th, 1939.

Jurisdiction arises under Section 240(a) of the Judicial Code (28 U. S. C. A. §347), as amended by the Act of February 13, 1925 (43 Stat. 938), and Section 38 of the Copyright Law (17 U. S. C. A. §38).

Constitution and Statutes Involved.

Article I, Section 8, Clause 8 of the Constitution of the United States; and relevant portions of the Copyright Statute (17 U. S. C. A.) Sections 25, 34 and 38 are set out in the appendix (p. 45).

Brief History of the Case.

This action was begun June 24, 1932 by the filing of a bill in equity in the District Court, Southern District of New York (R. 1). The bill charged copyright infringement of petitioners' play DISHONORED LADY by respondents' motion picture LETTY LYNTON, and an injunction and an accounting of profits were sought (R. 4f).

After a trial, the District Judge dismissed the bill finding no infringement (7 Fed. Supp. 837).

The issue of infringement was appealed to the Circuit Court of Appeals which reversed, found and enjoined the infringement, and ordered an accounting of profits (81 Fed. 2d 49, R. 1291; R. 6). Respondents then sought a writ of certiorari which was denied

(298 U. S. 669). A second application on the final judgment was denied on December 4, 1939—No. 505.

A Special Master took the account of profits. Petitioners offered no proof of damages but were awarded all of the profits made by the infringement (R. 1040). The Special Master's report, with slight modifications, was confirmed by the District Court (26 Fed. Supp. 134; R. 1212).

The respondents' plea before the Master and the District Court was that there should be an apportionment of the profits. Both the Master and the District Court refused to apportion (R. 1194). The Circuit Court of Appeals reversed the District Court and, though finding that the infringement was a deliberate plagiarism (R. 1265), nevertheless apportioned the profits—20% to the copyright owners—80% to the infringers (R. 1266).

Statement.

Petitioners are playwrights of experience and ability. On January 18, 1930 they copyrighted their play DISHONORED LADY as an unpublished work (R. 4a, 4b).

Their play was inspired by a famous Scotch criminal trial which occurred in 1859 known as "The Trial of Madeleine Smith".

DISHONORED LADY opened in New York on February 4, 1930 and after its New York run, toured the road. Katharine Cornell, an outstanding actress, played the leading role. The play was also produced abroad in London.

Respondents are allied corporations engaged in production, distribution and exhibition of motion pictures.

Respondent, Metro-Goldwyn Pictures Corporation, engages in the *production** or manufacture; respondent, Metro-Goldwyn-Mayer Distributing Corporation engages in the *distribution*, that is, licenses their exhibition in theatres; defendant, Loew's, Inc. operates (through subsidiaries) a chain of theatres which *exhibits* pictures; Culver Export Corporation takes over distribution abroad (R. 962, 963).

Shortly after the New York opening the respondents procured a manuscript of the play DISHONORED LADY and negotiations were carried on for sixteen months for the purchase of the motion picture rights thereto. The parties had agreed on a price and a formal contract was prepared.

However, before the money was passed, respondents wanted to satisfy a trade association of which they were members, known colloquially as the "Hays Organization".

The "Hays Organization" barred the play for picture purposes, unless certain requirements could be met which it thought to be in keeping with a code it had set up.

In May, 1930, while the deal was still pending, a novel entitled LETTY LYNTON, by Marie Belloc-Lowndes, was published in England. This novel was also inspired by the Madeline Smith trial.

In June, 1931, the respondents abandoned negotiations for petitioners' play.

Shortly thereafter they bought the motion picture rights of the novel LETTY LYNTON. For it they paid \$3,500. The price fixed upon petitioners' play had been \$30,000.

Immediately and deliberately they proceeded to make a motion picture of petitioners' copyrighted

* Italics throughout the brief are ours.

stage play DISHONORED LADY. The novel LETTY LYNTON served as a screen.*

The Court below found the respondents' motion picture to be a deliberate plagiarism (R. 1264, 1265):

"They were not innocent offenders; they deliberately lifted the play; it would take far more than the denials in the old record to convince us to the contrary in the face of the step by step 'tracking', which our comparison and analysis disclose. * * * We now hold that the borrowing was a deliberate plagiarism."

The respondents' motion picture was first released, or publicly shown on May 7th, 1932 (R. 302).

Petitioners filed suit on June 24, 1932. Issue was joined on July 25, 1932. Petitioners applied for an injunction *pendente lite* on July 29, 1932.

The District Court, in balancing the conveniences, denied the temporary injunction but set the case "near the head of the Day Calendar for trial October 1932".

The trial, however, was delayed about nine months—until April 1933. The Judge who heard the case did not render his decision, dismissing the bill, until July 31, 1934, over fifteen months after the trial. (7 Fed. Supp. 837; R. 1.)

The box office value of a motion picture exhausts itself in the United States in about six months after its first release, and in the foreign field in about a year after the release in the United States (R. 383, 385).

Petitioners, though duly energetic, because of the dismissal of the bill, never succeeded in procuring an

* These facts appear in the prior opinion of the Court below 81 Fed. (2) 49; (R. 1291) and the District Court's opinion on dismissal of the bill 7 Fed. Supp. 837.

injunction until July, 1936—too late by over three years to be of service (R. 4).

Meanwhile, respondents, who have been found to be deliberate plagiarists, and had exhausted the infringing work at the box office (although petitioners as now appears were entitled to an injunction from the outset) are now nevertheless, not only allowed to recoup all of their costs, but in addition, have been permitted to retain 80% of the profits.

The Copyright Statute (17 U. S. C. A. §25b) provides that the infringer shall pay to the copyright owner "such damages as the copyright proprietor may have suffered * * * as well as all the profits which the infringer shall have made from such infringement * * *".

The Court below however, did not follow the Statute or the prior decisions of this Court, but justified its apportionment of profits by attempting to distinguish the cases of *Callaghan v. Myers*, 128 U. S. 617, and *Belford, Clarke & Co. v. Scribner*, 144 U. S. 488, and by overruling its own prior decision of *Dun v. Kirk LaShelle Co.*, 175 Fed. 902 (C. C. A. 2) (R. 1260, 1261, 1263). It said of the *Callaghan* and *Belford* cases,

"The difficulties of separation have generally prevented infringers from attempting any apportionment; they have contented themselves with getting down the net profits as low as possible. That was the case in *Callaghan v. Myers*, supra; and in *Belford, Clarke & Co. v. Scribner*, 144 U. S. 488, 508, 12 S. Ct. 734, 36 L. Ed. 514; and for this reason the general language there used is not to be taken as holding that the infringer

must always be unsuccessful, no matter what evidence he may bring forward. They hold no more than that when he makes no effort to discharge the duty resting upon him, he will be cast for the whole profit" (R. 1260, 1261).

As we shall see (*post*, p. 13 *et seq.*), this distinction is without factual basis to support it.

The infringers in those cases did not "content themselves with getting the net profits down as low as possible" but made strenuous "effort" to have the profits apportioned, and in the *Belford* case actual evidence was offered therefor, which was not contradicted.

Having thus attempted to distinguish the two controlling decisions of this Court, the Court below aggravated the error by making its apportionment on the basis of a supposed patent analogy which does not exist even in patent law.

In substance, because respondents had selected popular actors and had supplied a skillful director and producer, along with other contributions, *e. g.*, scenario, costumes, advertising, etc., and had made a successful motion picture,—the Court below held that the respondents were entitled to an arbitrary apportionment of 80% of the profits (R. 1266).

In so doing the Circuit Court of Appeals has rendered the first decision of its kind in this Country or in England that counsel has been able to find.

Although apportionment of profits in copyright cases has been heretofore sought, it has always been rebuffed notably by the decisions in this court in the *Callaghan* and *Belford* cases.

The *net* profits were indeed net profits—for they were what remained only after the allowance of de-

ductions that included not only *actual* disbursements but *theoretical* disbursements which *never* were made, i. e., interest on investment—depreciation, etc. The extent of all these allowances will be gauged by reference to the District Court's opinion where it appears that out of the gross sum of \$1,655,269.15 realized from the infringement, respondents were credited with deductions aggregating \$1,467,664.78 (R. 1188).

The Court below also allowed as part of overhead an item of \$922,141.09 (R. 1266).

The question of apportionment of profits and this one item are the sole questions which petitioners raise in this Court.

\$922,141.09 Item.

The facts on the \$922,141.09 item are as follows:

Prior to 1924 Louis B. Mayer, Irving Thalberg and J. Robert Rubin were *producing* motion pictures through a corporation called Louis B. Mayer Pictures, Inc.

On April 7, 1924 it made an agreement with Metro Pictures Corporation (name later changed to Metro-Goldwyn Pictures Corporation) (Ex. 33, R. 832 offered R. 719). Under that contract the two corporations which theretofore had been separately producing motion pictures were unified. The three individuals, Mayer, Thalberg and Rubin, took charge of motion picture production for Metro Pictures Corporation. They were paid substantial weekly salaries, plus 20% of the net receipts of Metro Pictures Corporation (Ex. 33, R. 839 offered R. 719).

In 1926 Mayer, Thalberg and Rubin formed a partnership—Louis B. Mayer Pictures—and this

partnership thereupon succeeded to the old position held by Louis B. Mayer Pictures, Inc. (Ex. 33, R. 858 offered R. 719).

In 1927 Loew's, Inc., the "top" holding company (Ex. 17, R. 770 offered R. 327) took over and extended this contract to 1932 and the interest of the partnership which theretofore had been in the earnings of Metro Picture Corporation, Inc. was changed to an interest in the combined annual net profits of Loew's, Inc. (Ex. 33, R. 861 offered R. 719).

After payment of \$2 per share dividend on Loew's stock, the three individuals comprising the partnership would now receive 20% of the combined annual net profits of Loew's, Inc., up to two and one-half million dollars, and 15% of all other combined net profits (Ex. 33, R. 862; R. 986 offered R. 719). This percentage interest amounted in 1932 to \$922,141.09 (Ex. 18-D5, R. 788 offered R. 328).

Loew's, Inc., through its stock holdings, was not only interested in the production of motion pictures, but also in their distribution and exhibition as well as incident real estate holdings (R. 770-Ex. 17 offered R. 327; R. 900-Ex. L1 offered R. 457; R. 913-Ex. L10 offered R. 529):

In addition to the sum of \$922,141.09 the three individuals received the following salaries: Mayer \$2500 per week, Thalberg \$4000 per week, Rubin \$2000 per week (R. 987; Ex. 33-R. 860, R. 870, 875, 857 offered R. 719).

Petitioners contend that the item is merely a distribution of profits to the three individuals. The Master said:

"I can find * * * no evidence in the record to justify a holding that the sum paid by virtue of

defendants' Exhibit 33 to Louis B. Mayer Pictures during the year of this accounting was a part of the general expenses of the production of pictures by the Metro Goldwyn Pictures Corporation during the year in question. * * * *It is perfectly clear * * * that the percentage to be paid had no relation whatsoever to the cost of production and in no sense could it be considered as a part of the cost of production*" (R. 987).

The Court below did not disturb the finding of the Master that the percentage payment could not be considered as a cost of production.

Instead, the Court below allowed the percentage on the erroneous legal ground that the right of the three individuals to claim the percentage based on profits preceded the rights of respondents to recover the profits made by the defendants on the infringement.

The Court below said:

"The payments were never profits of the defendants at all; the contracts effectively laid hold of them the moment they came into existence. Not to allow the credit would be in substance to introduce the partners as defendants into this suit and yet to hold Loew's Inc. responsible for the recovery against them" (R. 1266).

Specification of Errors.

The Circuit Court of Appeals erred:

1. In holding that the copyright owners were not entitled to all the profits realized by the infringers.

2. In failing to follow the Statute (17 U. S. C. A. #25b) and the precedent established by this Court in *Callaghan v. Myers, supra*, and *Belford v. Scribner, supra*.
3. In holding that in the *Callaghan* and *Belford* cases, the infringers were "cast for the whole profit" because they had made "no effort to discharge the duty resting upon him (them)", of making the apportionment.
4. In apportioning the profits because the infringement of the copyrighted work was in the form of a motion picture copy thereof.
5. In apportioning profits when the infringing motion picture was a single, indissoluble unit, which was distributed and exhibited as a unit, and all receipts therefrom were for the use of the infringing work as a unit.
6. In apportioning to the infringers 80% of profits solely upon the popularity of the stars or actors, the skill and reputation of the producer and the director, the scenery and costumes, and the extent of the advertising furnished by respondents in the manufacture of their motion picture copy.
7. In not holding that the alleged contributions made by the respondents to the infringing work were nothing more than contributions of labor and material, and therefore but an item of expense of manufacture, rather than a distinct contribution.
8. In apportioning profits when the infringement is a deliberate plagiarism.
9. In allowing the respondents a credit of \$922,141.09 as part of the overhead to be charged proportionately as part of the cost of manufacturing the infringing picture.

Summary of the Argument.

I. There can be no apportionment of profits in a suit for copyright infringement. It is forbidden both by the Statute (17 U. S. C. A. #25b) and the decisions of this Court.

The Court below, in making an apportionment of profits in this suit for copyright infringement, erred in not following the Statute and the decisions of this Court in *Callaghan v. Myers* and *Belford v. Scribner*, which refuse such apportionment and in attempting to distinguish them on a non-existent basis.

II. The Court below erroneously justified its apportionment by a resort to patent cases.

Granting *arguendo* that there can be an apportionment of profits in a suit for copyright infringement, the basis used by the Court below has never been recognized even in the field of patents.

III. At all events, since the respondents have been found to be "deliberate plagiarists" they are under no circumstances entitled to an apportionment or other equitable consideration.

IV. The payment of \$923,121.09 to Messrs. Mayer, Rubin and Thalberg, in addition to salaries of \$130,000, \$104,000 and \$208,000 respectively, in the year 1932, is a distribution of profits and is not properly allowed as cost.

POINT I.

(Specifications 1, 2, 3, 4 and 5.)

The Circuit Court of Appeals erred in not following the Statute and the decisions of this Court in *Callaghan v. Myers* and *Belford v. Scribner*, and in attempting to distinguish them on a non-existent basis.

Apart from failing to heed the plain mandate of the Statute (17 U. S. C. A. #25b) that grants to petitioners "all the profits", the Circuit Court of Appeals did not follow, but attempted to distinguish, the prior decisions of this Court in *Callaghan v. Myers* and *Belford v. Scribner*, by saying that "they hold no more than that when he (the infringer) makes no effort to discharge the duty resting upon him he will be cast for the whole profit" (R. 1261). This distinction has no basis in fact.

In the *Belford* case, defendant apparently sought to escape the doctrine of the *Callaghan* case; for Belford not only offered expert testimony, but specifically pleaded in mitigation that the infringing portions "do not exceed from ten to fifteen percent of the entire contents" (Belford Rec., p. 22).

Belford called an expert on cook books. He testified that 153 cooking recipes had been copied, in whole or in part, but that these constituted but a total of 2,010 lines, or 56 pages out of a total of 300 pages contained in the infringing cook book; that "if the matter which has been copied * * * were to be taken out of the book, it would leave a work of value as a cook book" (Belford Rec., pp. 116, 117).

Scribner did not offer to rebut this testimony.

On appeal Belford assigned as error to this Court the refusal to apportion profits (Assignment No. 5.

Belford Rec., p. 122). Belford's brief to this Court (p. 15) specified as error that the infringement constituted but a "small part" and could "easily and certainly been separated from the balance".

Indeed the Court below in the case at bar in finding "no effort" was made must have even overlooked a vital portion of this Court's opinion in the *Belford* case for the opinion of this Court expressly sets forth Belford's fifth assignment of error in *huc verba* at page 502 as follows:

"(5) Because the decree goes for the entire amount of profits realized by the corporation defendant which was the proprietor of the book which is alleged to infringe the rights of the plaintiff, instead of such part of the profits as was realized by such infringement."

Therefore not only the record but also the opinion in the *Belford* case demonstrates the error of the Court below in attempting to distinguish it on the basis that "no effort" was made to furnish a basis for apportionment.

In the *Callaghan* case, the infringement had to do with Freeman's Illinois Reports. Freeman had taken the court opinions which were common property or *publici juris* and had given them the usual reporter's treatment by adding indices, headnotes and the like. These were copyrighted and were found to have been infringed.

In the *Callaghan* case no so-called expert evidence appears to have been offered, but Callaghan's counsel in his brief to this Court (p. 7), urged that apportionment be made on the physical content measured separate from the opinions, which, considering the

subject matter, was as sane a basis as any other. The invitation was refused.

The Court below in overruling its own prior decision of *Dam v. Kirk LaShelle*, 175 Fed. 902, thought that the court, there in refusing an apportionment, acted *sua sponte* (R. 1261).

It is submitted that the Court in the *Dam* case was not acting *sua sponte*, but was following well recognized legal principles.

It was the Court below which acted *sua sponte* in making the purported distinction that "no effort" was made in either the *Belford* or *Callaghan* cases; for not even the respondents suggested that the *Callaghan* and *Belford* cases were distinguishable upon that ground. They contented themselves with trying to demonstrate that they were innocent infringers whereas the *Callaghan* and *Belford* cases involved slavish copying, done wilfully.

These grounds are no longer available to respondents as they now, themselves, stand convicted as deliberate plagiarists (R. 1265).

The Court below noted that: "The plaintiff called no witnesses to rebut this testimony" (R. 1264). The plaintiffs did object to the evidence throughout however**; standing on what they understood the then existing law to be as stated in the *Callaghan*, *Belford* and *Dam* cases.

But Scribner in the *Belford* case likewise did not offer any evidence to rebut the apportionment contention.

* (Respondents' Brief below, pp. 22, 23, 24.)

** R. 164-171, 266, 267, 279, 281-283, 541, 544, 563-568, 574, 577, 590, 597-599, 601-603, 609, 611, 618, 619.

If, therefore, cannot be said that in the *Belford* case this Court refused the apportionment on any weight of evidence theory.

The apportionment was refused solely as a principle of law. In *Callaghan v. Myers* this Court had previously said (p. 666):

"In regard to the general question of the profits to be accounted for by the defendants, as to the volumes in question, the only proper rule to be adopted is to deduct from the selling price the actual and legitimate manufacturing cost. If the volume contains matter to which a copyright could not properly extend, incorporated with matter proper to be covered by a copyright, the two necessarily going together when the volume is sold, as a unit, and it being impossible to separate the profits on the one from the profits on the other, and the lawful matter being useless without the unlawful, it is the defendants who are responsible for having blended the lawful with the unlawful and they must abide the consequences, on the same principle that he who has wrongfully produced a confusion of goods must alone suffer. As was said by Lord Eldon, in *Mawman v. Tegg*, 2 Russ. 385, 391:

"If the parts which have been copied cannot be separated from those which are original, without destroying the use and value of the original matter, he who has made an improper use of that which did not belong to him must suffer the consequences of so doing. If a man mixes what belongs to him with what belongs to me, and the mixture is forbidden by the law, he must again separate them, and he must bear

all the mischief and loss which the separation may occasion. If an individual chooses in any work to mix my literary matter with his own, he must be restrained from publishing the literary matter which belongs to me; and if the parts of the work cannot be separated, and if by that means the injunction, which restrained the publication of ~~my~~ literary matter, prevents also the publication of his own literary matter, he has only himself to blame.

"The present is one of those cases in which the value of the book depends upon its completeness and integrity. It is sold as a book, and not as the fragments of a book. In such a case, as the profits result from the sale of the book as a whole, the owner of the copyright will be entitled to recover the entire profits on the sale of the book, if he elects that remedy. *Elizabeth v. Nicholson Payment Co.*, 97 U. S. 126, 139 (24: 1000, 1006)."

In the *Belford* case ~~the~~ Court said at page 508:

"The rule is well settled that, although the entire copyrighted work be not copied in an infringement, but only portions thereof, if such portions are so intermingled with the rest of the piratical work that they cannot well be distinguished from it, the entire profits realized by the defendants will be given to the plaintiff. This was the rule laid down by this court in *Callaghan v. Myers*, 128 U. S. 617, 665 [32; 547, 562], following *Mawman v. Tegg*, 2 Russ. 385, 391, and *Elizabeth v. Nicholson Pgr. Co.*, 97 U. S. 126, 139 [24; 1000, 1006]."

The Court below said that this "general language" was not controlling in the case at bar (R. 1260).

If, as the Court below states, "no effort was made" in the *Belford* and *Callaghan* cases, it is hard to understand why the Court was at pains to point out why an apportionment could not be had.

Surely the full reasoning given in both cases is otherwise unexplainable.

In *Dam v. Kirk La Shelle Co.*, 175 Fed. 902, 908 the Court said:

"On the other hand, unless the complainant is entitled to all the profits arising from the production of the play, she is, as a practical matter, entitled to no pecuniary recovery at all. It is manifestly impossible for an author of a book or story which he has never dramatized to show that he has sustained any actual damage by the dramatization and production of a play based upon it. It is equally impossible for him to show the proportion of the profits accruing to a theatrical company from the use of a copyrighted theme or plot and the proportion accruing from the use of the scenery, the employment of favorite actors, and other sources. *If in a case like the present an author cannot hold the theatrical company as his trustee and accountable for all the profits from the play, then it necessarily follows that all copyrighted but undramatized books and stories may be appropriated and used with impunity.*"

The *Callaghan* and *Belford* cases were both decided prior to the enactment of the present Act of 1909. The *Dam* case, while decided after the enactment of the 1909 Act, was not decided under it because the action arose prior to its enactment (35 Stat. 1088).

The prior Copyright Statutes contained no express provision for the recovery of profits (Revised Stat. 4964-4967). Equity as an incident to the injunction awarded a recovery of profits. Now by express enactment the infringer is entitled to "all the profits".

Recently this Court had occasion to remark that it is "subtle business, calling for great wariness lest what professes to be mere *rendering* becomes *creation* and attempted interpretation of legislation becomes *legislation itself*."

Palmer et al. v. Commonwealth, U. S.
; 84 Law Ed. 8, 10; No. 7, Oct.
Term, 1939; Decided Nov. 6, 1939.

That admonition is indeed relevant here in view of the plain mandate of the Statute which requires that "all the profits" be surrendered, coupled with the untenable distinction of prior decisions of this Court.

This Court has refused to extend the apportionment theory to trademarks because it was found to be "inherently impossible" *Hamilton-Brown Shoe Co. v. Wolf Bros.*, 240 U. S. 251.

In the *Hamilton-Brown Shoe Co.* case apportionment was urged upon the Court. It considered the analogies suggested between patents and trade-marks, and said (p. 261): "assuming the asserted analogies to patent cases do exist, a sufficient reason for not requiring the complainant in the present case to make an apportionment * * * is that such an apportionment is *inherently impossible*."

The Court quoted with approval the case of *Graham v. Platt*, a trade-mark case reported at 40 Cal. 593, 598, 6 Am. Rep. 639, 640, as follows:

"In sales made under a simulated trade-mark

it is impossible to decide how much of the profits resulted from the intrinsic value of the commodity in the market, and how much of the credit to give to it by the trade-mark. In the very nature of the case it would be impossible to ascertain to what extent he could have affected sales and at what prices except for the use of the trade-mark. The difficulty lies in ascertaining what proportion of the profits is due to the trade-mark and what to the intrinsic value of the commodity; and as this cannot be ascertained with any reasonable certainty it is more consonant with reason and justice that the owner of the Trade-mark should have the whole profits than that he should be deprived of any part of it by the fraudulent act of the defendant. It is the same principle which is applicable to a confusion of goods. If one wrongfully mixes his own goods with those of another so that they cannot be distinguished inseparately he shall lose the whole for the reason that the fault is his; and it is but just that he should suffer the loss rather than an innocent party who in no degree contributed to the wrong."

Nor was this Court in the *Hamilton-Brown* case without the benefit of *Westinghouse v. Wagner*, 225 U. S. 604, or *Dowagiac Mfg. Co. v. Minnesota Plow Company*, 235 U. S. 641, the two cases which formed the keystone of the respondents' argument, and of the decision below.

Both were referred to in the *Hamilton-Brown* case, but this Court refused to apply the suggested analogies of patent to trademark cases.

In commenting on them the Court said (pp. 260, 261):

"The rule invoked is that which, as pointed out in the last two of these cases, is applicable where plaintiff's patent relates to a part only of a machine or combination or process, or to particular improvements in a machine or other device. In such case, where the invention is used in combination with other elements of value not covered by the patent, so that plaintiff's patent creates only a part of the profits, he is entitled to recover only that part, and must give evidence tending to apportion the profits between the patented and unpatented features. But, as pointed out in the *Westinghouse* case (p. 618), there is a recognized exception where the plaintiff carries the burden of proof to the extent of showing the entire profits, but is unable to apportion them, either because of the action of the wrongdoer in confusing his own gains with those which belong to plaintiff, or because of the inherent impossibility of making an approximate apportionment. There, on established principles of equity, and on the plainest principles of justice, the guilty trustee cannot take advantage of his own wrong."

And it is submitted here that apart from the fact that both a patent and a copyright are statutory monopolies there is nothing in common between them. The subject matter protected, means of securing, requirements for and the scope of the protection when acquired are worlds apart.

Analogies of Patent and Copyright.

The inhibition of the Copyright Act is that one person is prohibited from making copies of another's copyrighted work. The protection is indicated in the name of the word itself, "copyright", *i. e.*, the right to copy.

But a patent goes far beyond a copyright. Two inventors working independently could conceivably invent an identical invention, but he who came first could monopolize the field to the exclusion of the other.

Not so in copyright. Two authors working independently could conceivably write the same work. Both would be entitled to a valid copyright. There can be a *plurality* of copyrights, *Dymow v. Bolton*, 11 Fed. (2d) 690, 691; *Sheldon v. Metro, etc.*, 81 Fed. (2d) 49, 54 (R. 1302). There can of course be but *one* valid patent.

The protection is from "copying". The Copyright Act (17 U. S. C. A. § 6) specifically provides for protection of "abridgements, adaptations, arrangements, dramatizations, translations, or other versions of works in the public domain".

A patent is invalidated by reason of prior art or anticipation, but a copyright as provided in Section 6 (17 U. S. C. A.) may be had on the rewriting of works "in the public domain".

"Public domain", refers to those *works* upon which copyright has expired or which have been published without its protection, and are therefore open to the public to "make copies thereof".

The Court below confuses this. It said (R. 1264):

"Before fixing a percentage upon the basis of

this testimony we must consider two things peculiar to the case at bar. First, all the witnesses' estimates were based upon the contribution of the entire play; that is, as though it was completely the work of the plaintiffs. As we know, that was not the case; *the plaintiffs worked over old material. The general skeleton was already in the public domain.* A wanton girl kills her lover to free herself for a better match; she is brought to trial for the murder and escapes. Nobody can say how far this basic plot is to be credited with whatever the play contributed to the drawing power of the picture. That consideration must therefore count toward reducing the percentage of the profits recovered."

While the Court apparently made no express apportionment on the basis of this statement, the confusion is apparent. But if it can be said that the Court did make an apportionment on the basis of the foregoing, the error is but further aggravated.

These respondents are not charged with or convicted of having copied the trial of Madeleine Smith. They had a perfect right to do that and to dramatize it if they wished.

● They have been charged with and convicted of copying *our* dramatization of the trial of Madeleine Smith—a clear violation of petitioners' rights under Section 6.

So, what the trial of Madeleine Smith may or may not have contained is irrelevant.

What they *copied* was *our* dramatization of it.

The petitioners in writing their play did not need to rely on the trial of Madeleine Smith for their inspiration. History in any stage would have and al-

ways will furnish the identical dramatic plot. A scanning of the sheets of any metropolitan daily will supply the same result.

The fact that the trial of Madeleine Smith inspired them to write a play concerning it, which the respondents copied, does not diminish their rights against the respondents for having done so. "The skeleton was already in the public desmesne",—as what isn't—before Madeleine Smith was ever born and will probably continue to remain so until the end of time.

If the Court's reasoning is right and if Polti* is also right that there are but thirty-six possible dramatic situations, there is little incentive left for any author to redramatize characters such as Washington and Lincoln or for that matter Madeleine Smith. His protection is indeed scant if it is to be eroded by the considerations suggested by the Court below. Fortunately that is not the law and never was.

In *Emerson v. Davies*** (Story, Circuit Justice), 8 Fed. Cas. 615, 620, it is said:

"It is a great mistake to suppose because all the material of the work, or some parts of its plan or arrangements and modes of illustration, may be found separately or in a different form, or in a different arrangement in other distinct works that, therefore, if the plan or arrangement or combination of these materials in another work is new or for the first time made, the author or compiler or framer of it (call him what you please) is not entitled to a copyright. The re-

* The Thirty-six Dramatic Situations by Georges Polti published by the Editor Company 1916, 1917; James Knapp Reeve 1921; Writers Digest 1931.

** Approved By Lord Atkinson in *Macmillan v. Cooper*, (1923) 40 T. L. R. 186.

verse is the truth in law and as I think in common sense also."

This Court in *Bleistein v. Donaldson*, 188 U. S. 239, 250, said:

"Personality always contains something unique. It expresses its singularity even in handwriting, and a very modest grade of art has in it something irreducible which is one man's alone. That something he may copyright unless there is a restriction in the words of the act."

A man is entitled to copyright if he goes through the streets of a town and makes a directory.

So is any other man who desires to undertake it.

If both works are accurately performed it necessarily follows that they will both be identical. The material is available for anyone who wishes to take it; but that some one has done it before, does not diminish the rights of him who follows.

In *Jewelers' Circular Pub. Co. v. Keystone Pub. Co.*, 281 Fed. 83, 88 (C. C. A. 9), the Court said:

"The right to copyright a book upon which one has expended labor in its preparation does not depend upon whether the materials which he has collected consist or not of matters which are *publici juris*, or whether such materials show literary skill or originality, either in thought or in language, or anything more than industrious collection. The man who goes through the streets of a town and puts down the names of each of the inhabitants with their occupations and their street number, acquires material of which he is the author. He produces by his labor a meritorious

rious composition, in which he may obtain a copyright, and thus obtain the exclusive right of multiplying copies of his work."

The protection is from "copying."

One would not say that the Caterpillar tractor in the fields of Kansas is a "copy" of the Army tank in the fields of France, but surely the inventor of the tractor could recover for the use of the Caterpillar chain on the Army tank.

On the other hand, Shaw could not claim that Ludwig's Napoleon was a copyright infringement of his "Man of Destiny", although the identical subject matter is involved in both works.

The propositions seem self-evident. Yet the Court below seemed to toy with them as furnishing an apportionment basis.

A patent gives a specific defined grant to the patentee. Except for its nature it would, like a piece of real property, be capable of measurement in metes and bounds.

But a copyright only prevents the unauthorized "copying" of the author's work. The issue, therefore, in a patent suit is never similar to that in a copyright suit. The question in the patent suit is, does the device impinge upon the metes and bounds resting in the patent owner under his grant. The sole question in a copyright suit is, has one work been "copied" from the other.

If the work is properly protected, but copied the recovery follows under the statute.

Surely, if the Court below is correct in its statement that "that consideration should have counted toward reducing the percentage of the profits recoverable", then the case of *Callaghan v. Myers* (where nine-tenths the volume—in the form of the Court opin-

ions—was in the public domain), is one of *a fortiori*. As we know, the Court in the *Callaghan* case awarded all profits to the copyright owner and “that consideration” did not count towards reducing the profits recoverable.

In *Westinghouse Electric & Mfg. Co. v. Wagner Electric & Mfg. Co.*, 225 U. S. 604, at pages 614 and 615, Mr. Justice Lamar sets forth the four general categories of patent cases wherein questions as to the profits to be recovered might arise. They are as follows:

“(a) Where the infringer has sold or used a patented article, the plaintiff is entitled to recover all of the profits.

(b) Where a patent, though using old elements, gives the entire value to the combination, the plaintiff is entitled to recover all the profits. *Hurlbut v. Schillinger*, 130 U. S. 472, 32 L. Ed. 1016, 9 Sup. Ct. Rep. 534.

(c) Where profits are made by the use of an article patented as an entirety, the infringer is liable for all the profits ‘unless he can show—and the burden is on him to show—that a portion of them is the result of some other thing used by him.’ *Elizabeth v. American Nicholson Pav. Co.*, 97 U. S. 127, 24 L. Ed. 1002.

(d) But there are many cases in which the plaintiff’s patent is only a part of the machine and creates only a part of the profits. His invention may have been used in combination with valuable improvements made, or other patents appropriated by the infringer, and each may have jointly, but unequally, contributed to the profits.

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In such case, if plaintiff's patent only created a part of the profits, he is only entitled to recover that part of the net gains. He must therefore give evidence tending to separate or apportion the defendant's profits and the patentee's damages between the patented feature and the unpatented features, and such evidence must be reliable and tangible, and not conjectural or speculative; or he must show, by equally reliable and satisfactory evidence, that the profits and damages are to be calculated on the whole machine, for the reason that the entire value of the whole machine, as a marketable article, is properly and legally attributable to the patented feature. *Garretson v. Clark*, 111 U. S. 121, 28 L. Ed. 371, 4 Sup. Ct. Rep. 291."

It is submitted that categories a, b and c are all analogous to the situation in a copyright infringement. The respondents here have "sold and used" the article copyrighted. Why therefore are they not within category (a) in such wise as to merit recovery of "all the profits"?

Concerning the Importance of the Questions Presented.

Until the decision below, a copyright owner was thought to be entitled to all profits made by an infringer in the use of his work. The effect of the decision is to overrule this Court's decisions in *Callaghan v. Myers*, and *Belford v. Seribner*, which granted to the author all profits made from the infringement of his work and to nullify rights which

Congress in conformity with the Constitution has seen fit to give to authors—i. e., “all the profits”.

If apportionment is to be had in copyright infringement cases, particularly on the erroneous basis as suggested by the decision below, no one can overstate the possibilities of the decision.

Today the vast and multiple means of dissemination of authors' works, and the almost instantaneous surfeiting of the entire nation therewith, is demonstrated in the fields of radio, motion picture, theatrical and embryonic television industries, to say nothing of the mass publication of books, novels, newspapers and other publications.

The very thing which the injunction is to prevent is today a *fait accompli* before it can be procured.

The authors who create, and the industries which manufacture the copies of their creations, lean heavily upon the uniform and correct application of the laws which affect them respectively.

If industry can make a glorified copy of the work of an author; escape the hazard of an injunction because the arm of equity is not quick enough to stop the wrong before it has run, and after eight years of crushing litigation retain 80% of the gains, there is little incentive left for industry to consult with or make contracts with authors.

The law was designed as a deterrent to plagiarism—the copyright owner was given “all the profits” be they great or small. The law was not designed with regard to the ultimate position of the copyright owner—his recovery to be varied with the amount of the profits. The design of the law was to deprive the wrongdoer of *all* profits—not all profits if the infringement is a financial failure—and 20% of the profits if the infringement is a success.

If authors are to be denied rights granted to them by Congress—in language clear beyond peradventure—that “all the profits” shall be theirs—it is well that authors and Congress be now so advised of the inadequacy of the plain language of their Statute.

POINT II.

(Specifications 6 and 7.)

Granting *arguendo* that there should be apportionment, the basis used by the Court below has never been recognized even in the field of patents.

But assuming *arguendo* that an apportionment of profits is to be had, based upon supposed analogies in the patent field; the Court was in ~~complete~~ error even on patent analogy.

Apportionment in Patent law cannot rest upon the skill, science and endeavor which went into the making of the infringing device but must rest upon some item separable from it of a “distinct and independent character” (*Clark v. Johnson*, 199 Fed. 116, 122).

An apportionment on the basis used below is merely an apportionment for labor and materials used in manufacturing the infringing copy, the cost of which has already been allowed as an item of expense.

If the contribution said to have been made by the actors and the director was not “labor”, it is difficult to justify the payment to them of “salaries”.

The energies of the self same actors and director might have been and indeed are expended in making other pictures *not* copies of Petitioner's play. They were no more essential to the making of the picture

than is manpower in general to any endeavor. Of course if respondents had made a "Chinese copy" of the play, in making their picture, they would still require actors, a director, scenery, etc. It affords no basis for an apportionment of profits in Patent much less in Copyright.

It is immaterial whether the infringing copy is good, bad or indifferent. Both the infringer and the infringeé alike have to abide by the result of the taking.

Tilghman v. Proctor, 125 U. S. 138, 140;

Crosby Valve v. Consolidated Valve, 141 U. S. 441;

Elizabeth v. Am. Nicholson Pavement Co., 97 U. S. 126, 138;

Livingston v. Woodsworth, 15 How. 559.

The Court below said there were "two kinds" of evidence offered. One was "the price of the picture rights in the play, as both plaintiffs and defendants had agreed to it"; the other was "the opinions of experts".

The Court rejected the agreed price leaving as the sole basis for apportionment the "expert testimony".

"Very generally they (the experts) professed to believe that the controlling factor in the success of a play (picture) was the popularity of the actors—the stars—* * *; that the other chief factors were the skill and reputation of the producer and the director, the scenery and the costumes, the extent of the advertising, and the reputation and standing of the producing company itself" (R. 1263, 1264).

The Court below, however, refused to allow "the currency which his reputation may have given to the

combined product", *a fortiori*, because, initially, "a plagiarist may not charge for his labor in exploiting what he has taken" (R. 1265). The latter is difficult to follow in view of the 80% apportionment made precisely on the basis of "labor".

On the foregoing categories, less the "currency of the respondents' reputation", the Court predicated its apportionment, stating, however, that it was "aware that out of all this no real standard emerges and that it would be absurd to treat the estimates of experts as being more than expressions of very decided opinions that the play should count for very little" (R. 1265).

The Court was "resolved to avoid the one certainly unjust course of giving the plaintiffs everything, because the defendants cannot, with certainty, compute their own share." As justification for this the Court commented that, "where *plaintiffs* failed to prove their *damages* exactly, we often make the best estimate we can, even though it is really no more than a guess" (R. 1265);—although it is to be remembered here that the award to Petitioners was *profits* mathematically and *exactly* ascertained, and not *damages* inexactly determined.

The basis of the apportionment below is founded on the brand of talent and skill used by the infringer in the making of the copy.

We call this nothing more than an apportionment on a "labor and material" basis. It is merely an item of cost to be allowed before arriving at the figure of profit, but not a basis upon which to apportion that profit.

But the Court below, not only allowed the cost of the labor and material, but allowed respondents to share

in the profits to the extent of 80%. Such treatment is never found in patent cases.

In *Duplate Corporation v. Triplex Safety Glass, Co. etc.*, 298 U. S. 448, a similar contention was before this Court in a patent case. Justice Cardozo in that case said (at p. 457):

"But this is to misconceive utterly the position of an infringer accounting for illicit profits. 'An infringer cannot be heard to say that his superior skill or intelligence enabled him to realize profits by his infringement which a person of less skill might not have realized.' *Lawther v. Hamilton* (C. C.), 64 F. 221, 224 (citing cases). * * * Whatever is at his call in the service of the enterprise—*brawn and intelligence, factories and lands, patents and machinery*—will be viewed upon an accounting as if held upon a quasi-trust to contribute what it can to the profits of the business. *The wrong-doer must yield the gains begotten of his wrong.*"

In *Conroy v. Penn. Electrical & Mfg. Co.*, 199 Fed. 427, 430, 431 (C. C. A., 3rd), the Court expressed a similar view:

"As argued by counsel, defendants might as well claim that they had more skilled workmen than other manufacturers or more experienced and efficient managers, or more reputation and prestige in the trade, which enabled them to secure higher prices for their goods. Many such dangerous, vague, and speculative reasons might be advanced in these accountings, were the opportunity afforded."

The same view, very well expressed, is found in the opinion of Judge Geiger in *Christensen v. National Brake & Electric Co.*, 10 Fed. (2d) 856, at 866 (D. C. Wis. modified and aff'd 38 Fed. (2nd) 721 and cert. denied 282 U. S. 864):

"Speaking broadly, I assume that when an infringer claims to have 'improved' the patented structure, so long as he is still within the inhibited field of the patent—either as a whole or respecting any mechanical element or part of the structure—he is still infringing. If by such 'improvements' he really betters, even beyond the contemplation of the patentee, but does not make a new or different structure in a legal sense; if he thereby promotes, no matter in how high a degree, its mechanical or commercial favor; if he thereby increases the gains and profits on an individual sale, or decreases them, but because of its greater favor with the public, increases production and thereby aggregate profits—he is still exercising the patentee's rights. He is accountable for the profit whether his infringement embody the most, or the least, favored of possible variant structures. * * * Yet that was simply a means of promoting the infringement. His profit was none the less an infringing profit. * * *. In other words, his liability is not dependent upon his having been lavish or niggardly in the accoutrements of the infringing device, or in the degree of its perfection *within the scope* of the patent. Such a situation, as I conceive it, never presents an issue of segregation in its true sense. * * *. It is my judgment, upon the evidence, that at no time was there pre-

sented to the master a situation clearly requiring a determination of any issue of segregation of profits."

The fallacy of the Court below is in attempting to apportion the profits falling *within the scope of the copyright itself*.

If there were to be an apportionment based upon patent analogy, it should be by a segregation of the copyrighted material from the added non-copyrighted portion.

In patent, the profits may be attributable to other portions of the machine *without the scope of the patent* because the unpatented portion may still stand as a useful mass and be viewed in its "distinct and independent character". *Clark v. Johnson*, 199 Fed. 116.

Such a case for example is *Garretson v. Clark*, 111 U. S. 120, where the improvement was on a mop—although mops had been known and used before "time out of mind".

But a literary composition is so essentially different from a mechanical structure that the same cannot be said. The third act of a comedy will hardly improve the second act of a tragedy, and likewise if the third act of any play is removed, the remaining two will be comparatively useless to anyone.

The courts do not consider what portion of the profit may be ascribed to the defendant's good workmanship in *infringing within the scope of the patent*.

"But can it be said that a change in materials or in decoration of a device is one of those elements which a court may take into considera-

tion in apportioning the profits? Surely not. It is only a form in which the patented spittoon is clothed. *The items for which allowance of profit may be made must be of a distinct and independent character.*"

Clark v. Johnson, 199 Fed. 116, 122 (C. C. A. 7).

If apportionment theories of patent law are to be extended to the copyright law, and perchance to the Trademark Law as well, then at least *the foundation for such apportionment should also be analogous to that in patent cases.*

It follows from the decision below that the right granted to the copyright owner to recover "all the profits" under the Act does not extend to the very good or glorified copies of his work, but only to those inferior or mediocre copies where the profits are not very great. The wrongdoer, if he is skillful, is to be credited with a share of the spoils.

The author of a book or play does not write the play or the book anticipating that he himself will either produce the play or publish the work. His sole function is with the pen.

Yet, any wilful infringer of either the play or book, that did a good job in producing the play or in publishing the book, may be entitled, under the decision of the Court below, not only to receive back his cost, but 80% of the profits as well.

It will be recalled that the evidence supporting apportionment was testimony by producers and exhibitors who testified that in purchasing the picture for exhibition in their theatres they were chiefly influenced by the names of the stars, producer, director, etc., who were concerned with the picture, and that

these in their opinion were responsible for the bulk of the receipts; that they were not concerned greatly with the story upon which the picture was to be made (R. 1263, 1264).

In *Stearns-Roger Mfg. Co. v. Ruth*, 87 Fed. (2d) 35, 39 (C. C. A., 10, 1936), similar evidence was presented to the Court and rejected, the Court stating:

"Either in an effort to apportion the profits, or to carry this burden, appellant offered the testimony of two mining engineers. But the proof so adduced was simply that the witnesses, in recommending this machine to their clients, considered the air control, the hard iron liners, the sands hole, ball bearing, etc., as well as the weir; that the presence of the weir was not the dominating influence in the recommendations. This evidence is without value. The engineers recommended the entire machine, and the appellant sold an entire machine. Resort cannot be had to an analysis of the mental processes of the engineers in recommending the purchase of infringing machines in order to compute profits. If so, the profits would vary with the state of mind of different purchasers. If the accounting were for damages for lost sales or of savings to a user of an infringing device, then proof that other comparable articles were available at about the same price—the so-called 'standards of comparison' rule—would be pertinent. But where the recovery is limited to net profits of sales actually made, such evidence is not pertinent. *Page Machine Co. v. Dow, Jones & Co.* (D. C. N. Y.), 238 F. 369, 372; Walker on Patents (6th Ed.), Sec. 775."

•In *Christiansen v. National Brake, etc.*, 10 Fed. (2d) 856, 866, Judge Geiger remarked that: "Such testimony amounts to little more than an attempt on the part of the witnesses to decide the issue".

POINT III.

(Specification No. 8.)

Since the respondents have been found to be "deliberate plagiarists", they are under no circumstances entitled to an apportionment or other equitable consideration.

The respondents have been stamped by the Court below to be "deliberate plagiarists", (R. 1265).

Nevertheless the Court below has allowed them, not only all their manufacturing costs, including overhead, but also 80% of the net profits.

Such action is not only contra to the policy of the patent decisions but also every legal rule respecting the treatment of wrongdoers.

The unquestioned rule in infringement cases is that an infringer in accounting for profits is viewed as a trustee *ex maleficio*. He is not a true or lawful trustee in such wise as to give a court of equity jurisdiction. The foundation of the court's jurisdiction is its power to grant an injunction, but having acquired the jurisdiction it is retained so as to compel the infringer to disgorge his profits and his liability is then measured as that of a trustee *ex maleficio*. This rule we think is axiomatic.

Hamilton-Brown Shoe Co. v. Wolf Bros. Co.
240 U. S. 251, 259;

Westinghouse v. Wagner, 225 U. S. 604, 618, 619;

Root v. Railway Co., 105 U. S. 189;

Wales v. Waterbury Mfg. Co., 101 Fed. 126 (C. C. A. 2, 1900);

Western Glass Co. v. Schmertz Wire Glass Co., 226 Fed. 730, 735 (C. C. A. 7, 1905).

This, that such an infringer may retain no benefit from his wrong.

Duplate Corp. v. Triplex Safety Glass Co., 298 U. S. 448, 457;

Crosby Steam Gage & Valve Co. v. Consolidated Safety Valve Co., 141 U. S. 441;

This Court in softening the previous hard and fast "alternative rule" of *Garretson v. Clark*, 111 U. S. 120, as respects burden of proof, by its decisions in *Westinghouse v. Wagner*, 225 U. S. 604, and *Dowagiac Mfg. Co. v. Minn. Plow Co.*, 235 U. S. 641, has restricted its application to those cases where the infringement was not done in bad faith.

Thus in *Westinghouse v. Wagner*, *supra*, the Court pointed out that the liberation from the heavy burden of proof established by *Garretson v. Clark* would not extend to those who had "been guilty of gross wrong" (p. 620).

And in confirming this liberation in *Dowagiac Mfg. Co. v. Minnesota Plow Co.*, the Court rested its view on the express finding of good faith. Thus, it says (p. 644):

"At the outset it should be observed that, while the defendants were infringers and bound to respond as such to the plaintiff, their infringement was not wanton or wilful."

Again in the trademark case of *Hamilton-Brown Shoe Co. v. Wolf Bros.*, 240 U. S. 251, 261, 262, this Court, although it refused an apportionment because to do so was "inherently impossible", gave as additional ground for not doing so the bad faith of the defendant.

Also:

Underwood Typewriter Co. v. For Typewriter Co., 220 Fed. 880, 886 (C. C. A. 6);
Brennan & Co. v. Dowagiac Mfg. Co., 162 Fed. 472, 476 (C. C. A. 6);
Dowagiac Mfg. Co. v. Superior Drill Co., 162 Fed. 479 (C. C. A. 6).

And as Mr. Justice Lamar in the *Westinghouse* case pointed out; the rule for wrongdoers is the same in infringement cases as in other instances of wrongful acts by a lawful trustee.

He said (p. 619):

"And the liability is not lessened because the confusion is due to a wrongful appropriation by a trustee *de son tort*, instead of carelessness of a trustee lawfully appointed."

He supported his views with the following authorities wherein the defendant was a *lawful* rather than a trustee *ex maleficio*.

Hart v. Ten Eyck, 2 Johns Ch. (N. Y.) 62, 108;
Lupton v. White, 15 Ves., Jr. 432-440.

The Court below was aware of the rule and even

pointed out that potentially a more harsh rule might be enforced.

"Indeed a constructive trustee, who consciously misappropriates the property of another is often refused allowance even of his actual expenses (Restatement of Restitution Section 158(d))" (R. 1265).

POINT IV.

(Specification No. 9.)

The payment of \$922,141.09 to Messrs. Mayer, Rubin and Thalberg, in addition to salaries of \$130,000, \$104,000 and \$208,000 respectively in the year 1937 is a distribution of profits and is not properly allowed as cost.

These three individuals were engaged solely in the *production* of motion pictures. Their percentage compensation is predicated upon the earnings of Loew's, Inc., a holding company, *not* so engaged. It merely owns *some* stock of the producing company (Ex. 17-R, 770, offered R. 327). Its other activities are *distribution* of motion pictures through stock ownership, and *exhibition* of pictures through its theatre subsidiaries, as well as real estate ventures incident thereto (Ex. 17-R, 770—offered R. 327; Ex. 11-R, 900—offered R. 457).

Before these individuals are entitled to the percentage Loew's, Inc. must first earn \$2 a share on its outstanding stock (R. 986).

The item has all the earmarks of a division of profits and none of salary or compensation—to be construed as expense. The finding of the Master that this was a mere division of profits is supported by the fact

that the three individuals were all, even in the depth of the depression (1932), receiving tremendous salaries.

Besides this \$922,141.09, Mayer, Thalberg and Rubin received weekly salaries of approximately \$2,500, \$4,000 and \$2,000, or annual salaries of \$130,000, \$200,000 and \$104,000, respectively. These, says the Master, "can only be regarded as very substantial salaries, no matter how large the business" (R. 987). He further stated (R. 987):

"The contract itself, as pointed out above, specifically says (Defendants' Ex. 33, p. 39) that this percentage compensation to the partnership shall *not* be considered as a *cost* in computing the net profits of this enterprise. The percentage as determined on page 31 of Defendants' Exhibit 33 is arrived at after the ascertainment of the consolidated annual net profits of Loew's, Inc., and all its subsidiaries and its companies and ventures. It is perfectly clear from this that the percentage to be paid had no relation whatsoever to the cost of production and *in no sense could it be considered as a part of the cost of production.*"

There is no rational justification for the payment to these three individuals of a sum of money based on a percentage of Loew's profits, unless the payment is in reality a distribution of the profits of Loew's.

What possible reason is there for creating such a norm of ~~compensation~~? If it were that the producing company were not paying these individuals enough, it would be a simple matter for *it* to raise their pay. Why go through the elaborate mathematical calculations which the agreement calls for in order to *com-*

pensate these individuals on a totally unrelated norm? A full reading of the contract demonstrates that the purpose of the three individuals was to take a profit percentage rather than a stock interest in the new enterprise.

The Court below allowed the item, saying:

"The payments were never profits of the defendants at all. The contracts effectively laid hold of them the moment they came into existence" (R. 1266).

How could existing contracts "lay hold" of profits of Loew's, Inc. which never in equity belonged to it?

Even though they did "lay hold" *inter se* between Loew's and the three individuals, how can that fact alter the petitioners' rights? The profits made by Loew's, Inc. from this picture, were equitably the property of petitioners irrespective of any contract it may have had to pay over part of them to some one else.

This \$922,141.09 item is only payable upon profits actually made. Indeed, it is only in the nature of a subsequent dividend because the stockholders of Loew's, are entitled to the first profit to the extent of \$2 a share.

Since these three individuals' percentage rests upon profit, and since profit is the residuum after payment of creditors, the petitioners, as equitable creditors, should not be called upon to participate in contributing to the claimed profits of Loew's.

Their rights precede the right of these individuals to claim profits.

If there were no profits in 1932 petitioners would not have been called upon to make any contribution to this item. The fact that there were profits does not change the situation.

The Master in disallowing this item followed *Lee v. Malleable Iron Range Co.*, 247 Fed. 795, 798, modified on other grounds and affirmed 263 Fed. 896 (C. C. A. 7), and cert. denied 251 U. S. 562, and applied the test therein expressed, as follows:

"A good way to test out the status of these payments in respect to cost or profits is to consider whether defendant as a manufacturer in endeavoring to make up the yearly budget upon any assumed volume of business in any respect of the matter would have included these payments or any estimate thereof as an item of cost of manufacture. Obviously not."

It is submitted that the size of the percentage item, coupled with the huge annual salaries, alone serve to earmark it as a distribution of profits, particularly when the distribution is made upon the basis of Loew's operations after Loew's stockholders have first received their \$2 dividend.

CONCLUSION.

It is therefore respectfully submitted that the decision of the Circuit Court of Appeals for the Second Circuit should be reversed and the case remanded with directions in accordance with the foregoing.

Respectfully submitted,

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APPENDIX.

Constitution and Statutes Involved.

The Constitution of the United States (Article I, Section 8, Clause 8) gives to Congress the power :

“8. To promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.”

The pertinent portions of the Copyright Law (Tit. 17. U. S. C. A.) are :

“Section 25. *Infringement.* If any person shall infringe the copyright in any work protected under the Copyright Laws of the United States, such person shall be liable :

(a) *Injunction.* (a) To an injunction restraining such infringement.

(b) *Damages and profits; amount, other remedies.* (b) To pay to the copyright proprietor such damages as the copyright proprietor may have suffered due to the infringement, as well as all the profits which the infringer shall have made from such infringement * * *.

(c) *Impounding during action.* (c) To deliver up on oath, to be impounded during the pendency of the action, upon such terms and conditions as the court may prescribe, all articles alleged to infringe a copyright;

(d) *Destruction of infringing copies and plates.* (d) To deliver up on oath for destruction all the infringing copies or devices, as well as all plates, molds, matrices, or other means for

making such infringing copies as the court may order.

§34. *Jurisdiction of actions under laws.* All actions, suits, or proceedings arising under the copyright laws of the United States shall be originally cognizable by the district courts of the United States. * * *

§38. *Review of orders, judgments, or decrees.* The orders, judgments, or decrees of any court mentioned in section 34 of this title arising under the copyright laws of the United States may be reviewed on appeal or writ of error in the manner and to the extent now provided by law for the review of cases determined in said courts, respectively."

